



AUDITOR - GENERAL  
SOUTH AFRICA

The accounting officer  
Thaba Chweu Local Municipality  
P.O Box 61  
Lydenburg  
1120

30 November 2013

Reference: 02274REG12/13

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thaba Chweu Local Municipality for the year ended 30 June 2013**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Deputy Business Executive: Mpumalanga

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# **REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE THABA CHWEU LOCAL MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I was engaged to audit the financial statements of the Thaba Chweu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statements of comprehensive income, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for disclaimer of opinion**

#### **Property, plant and equipment**

4. I was unable to obtain sufficient appropriate audit evidence, due to unreconciled differences of R65 054 543 between property, plant and equipment as disclosed in note 2 to the financial statements and the fixed asset register. I was unable to determine the reasons for these differences through alternative means. Consequently, I was unable to determine whether adjustments relating to property, plant and equipment and the depreciation stated at R997 690 061 (2012: R961 520 288) and R44 187 173 (2012: R53 606 034) in the financial statements, respectively, were necessary.

#### **Payables from exchange transactions**

5. I was unable to obtain sufficient appropriate audit evidence, due to unreconciled differences of R29 441 536 between payables from exchange transactions as disclosed in note 16 to the financial statements and the general ledger. I was unable to determine the reasons for these differences through alternative means. Consequently, I was unable to determine whether adjustments relating to payables from exchange transaction stated at R260 664 484 (2012: R146 916 227) in the financial statements were necessary.

6. The municipality did not recognise the liability for agency fees to be paid over to the Department of Community Safety, Security and Liaison. Consequently, trade and other payables are understated by R32 958 360 (2012: R11 589 372).

### **Investment properties**

7. The municipality did not record investment properties in the notes to the financial statements (2012: R149 388 200), as required by GRAP 16, but investment properties were identified during my audit. I was unable to obtain sufficient appropriate audit evidence to confirm the valuation of these properties. The municipality's records did not permit the application of alternative procedures. Consequently, I was not able to determine whether any adjustments to investment properties as disclosed in note 1 to the financial statements were necessary.

### **Revenue**

8. The municipality did not provide sufficient appropriate audit evidence to support revenue from prepaid electricity included in the service charges amounting to R100 943 406 as disclosed in note 20 to the financial statements. I was unable to confirm this through alternative means. Consequently, I could not determine whether adjustments relating to service charges revenue stated at R100 943 406 in the financial statement were necessary.

### **Expenditure**

9. The municipality did not have adequate systems to ensure that all transactions relating to expenditure incurred were properly accounted for, as value-added tax (VAT) was claimed from exempt services, assets were incorrectly classified as expenditure, and duplicate payments were made, which resulted in the understatement of general expenditure by R19 142 927. In addition, I was unable to obtain sufficient appropriate audit evidence for general expenditure as disclosed in note 24 to the financial statements and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustment to general expenditure stated at R54 088 870 in the financial statements was necessary.

### **Provisions**

10. In terms of GRAP 19, *Provisions, contingent liabilities and contingent assets*, a provision is a liability of uncertain timing or amount. The municipality did not disclose the leave provision as part of payables from exchange transactions. Consequently, provisions as disclosed in note 15 to the financial statements are understated and payables as disclosed in note 16 to the financial statements are overstated by R2 632 027 (2012: -R6 994 448).
11. The municipality did not accrue for post employment medical benefits of R21 334 000 (2012: R19 470 000), long service leave awards of R6 976 000 (2012: R5 614 000) and annual leave awards of R11 272 000 (2012: R0), as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*. The effects on the financial statements are that provisions and the accumulated deficit are understated by R39 582 000 (2012: R25 084 000).

## **Inventory**

12. I was unable to obtain sufficient appropriate audit evidence, due to unreconciled differences of R34 156 494 between the inventory as disclosed in note 6 to the financial statements and the inventory listings. I was unable to determine the reasons for these differences through alternative means. Consequently, I was unable to determine whether adjustments relating to inventory stated at R12 562 101 in the financial statements were necessary.

## **Trade and other receivables**

13. I was unable to obtain sufficient appropriate audit evidence, due to unreconciled differences of R13 296 120 for consumer debtors and receivables from non-exchange transactions as disclosed in notes 7 and 9 to the financial statements and the accounting records. Consequently, I was unable to determine whether adjustments relating to consumer debtors and receivables from non-exchange transactions stated at R24 338 961 (2012: R27 560 135) and R18 596 432 (2012: R13 531 179) in the financial statements, respectively, were necessary.

## **Unauthorised expenditure**

14. The municipality did not disclose unauthorised expenditure in the notes to the financial statements, as required by section 125(4)(a) of the MFMA. The municipality incurred expenditure amounting to R42 921 545 that had not been budgeted for. Included in this amount is R7 408 125 (2012: R5 715 648) for the expanded public works programme that had not been budgeted for. I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of unauthorised expenditure.

## **Commitments**

15. In terms of paragraph 124 of GRAP 1, other disclosures in the financial statements should include unrecognised contractual commitments. Unrecognised contractual commitments amounting to R19 825 647 (2012: R42 568 557) identified during the audit process could not be traced to the underlying accounting records of the municipality. Consequently, commitments as disclosed in note 35 to the financial statement are understated by R19 825 647 (2012: R42 568 557).

## **Irregular expenditure**

16. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure amounting to R75 053 262 as disclosed in note 39 to the financial statements, due to a limitation placed on the auditing of procurement. Irregular expenditure was identified during my audit.

## **Cash flow statement**

17. I was unable to obtain appropriate sufficient audit evidence as to whether the cash flow statement was fairly stated, due to the items contributing to the basis for the disclaimer of audit opinion.

### **Distribution losses**

18. Section 125(2)(d)(i) of the MFMA requires the municipality to disclose the particulars of any material losses in the notes to the financial statements. The municipality did not disclose distribution losses with regard to electricity and water sales, as the municipality had not implemented adequate control measures to reliably calculate these losses. I was unable to determine the total extent of the understatement of distribution losses, as sufficient appropriate audit evidence could not be obtained.

### **Aggregation of immaterial uncorrected misstatements**

19. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position, statement of financial performance and notes to the financial statements:

- Cash and cash equivalents reflected as R2 362 829 are overstated by R2 637 578.
- Investments reflected as R1 057 067 are understated by R8 902 977.
- Long-term liabilities (non-current borrowings) reflected as R8 599 791 are overstated by R9 578 411.
- Current liabilities (borrowings) reflected as R0 are understated by R9 578 411.
- Leased commitments reflected as R35 411 934 in note 35 to the financial statements are understated by R5 865 850.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following elements by alternative means:

- VAT of R12 054 298 as included in the disclosed balance of R10 021 379.
- Contingent liabilities of R5 056 001 as included in the disclosed balance of R16 873 664.
- Unspent conditional grants as included in the disclosed balance of R6 667 808.

### **Aggregation/Accumulation of undefined differences**

20. The financial statements as a whole contained numerous undefined differences that could not be supported. I could not get sufficient appropriate audit evidence as to the effect or the possible effect of these on the following classes of transactions or account balances:
- The statement of changes in net assets was misstated by an undefined difference of R602 227 289.
  - The cash flow statement was misstated by an undefined difference of R3 724 898 (2012: R11 288 241).

- Non-current assets had undefined differences relating to property, plant and equipment, investment properties and intangible assets amounting to R52 816 319, R149 388 200 and R204 713, respectively.
- Current asset had undefined differences relating to consumer debtors and the reconciliation of the allowance for impairment amounting to R24 388 961 and R117 080 399, respectively.
- The revaluation reserve note to the financial statements was misstated by an undefined difference of R1 001 893 687 (2012: R2 003 787 374).
- Current liabilities had undefined differences relating to the provision and unspent conditional grants amounting to R37 936 475 and R6 667 808 (2012: R1 401 473), respectively.
- The employee related cost note had cumulative undefined differences amounting to R3 507 963.

#### **Disclaimer of opinion**

21. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

#### **Emphasis of matter**

22. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Material impairments**

23. The municipality had an impairment for receivables amounting to R117 080 399 as disclosed in note 9 to the financial statements as at 30 June 2013, which had been outstanding for more than 12 months. The recoverability of these amounts is doubtful.

#### **Additional matters**

24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Unaudited supplementary schedules**

25. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

#### **Withdrawal from the audit engagement**

26. Due to the limitation imposed on the scope of my audit by management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of International Standards on Auditing.



## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

27. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### Predetermined objectives

28. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
29. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.
30. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives or development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
31. The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
32. The material findings are as follows:

### **Usefulness of information**

#### **Presentation**

33. The National Treasury's *Guide for the preparation of the annual report* requires that explanations for variances between the planned and reported (actual) targets should be provided in all instances and should also be supported by adequate and reliable corroborating evidence. Adequate and reliable corroborating evidence could not be provided for all major variances as disclosed in the annual performance report. This was due to inadequate internal policies and procedures for the processes pertaining to the reporting of performance information. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the reasons for major variances.

#### **Consistency**

34. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets were not consistent with the objectives, indicators and targets as per the approved integrated development plan. This was due to a lack of a performance management system.



## **Measurability**

35. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to a lack of a performance management system for the collection of actual performance information.

## **Reliability of information**

36. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the information presented with respect to basic services. This was due to actual achievements not being included in the annual performance report with respect to the planned development priority.

## **Compliance with laws and regulations**

37. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

## **Annual financial statements, performance report and annual report**

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not subsequently be provided, which resulted in the financial statements receiving a disclaimer of audit opinion.
39. Consolidated annual financial statements were not prepared, as required by section 122(2) of the MFMA.
40. The annual report for the year under review did not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, an assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote, and particulars of any corrective action taken or to be taken in response to issues raised in the audit report, as required by section 121(3)(e), (f) and (g) of the MFMA.

### **Asset and liability management**

41. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
42. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA

### **Audit committee**

43. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

### **Conditional grants received**

44. Sufficient appropriate audit evidence could not be obtained that the allocation of the municipal infrastructure grant had not been utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.
45. The municipality did not timeously submit project registration forms for projects it intended implementing in the 2013-14 financial year to the local government department, as required by the division of revenue grant framework issued in Gazette No. 35399.
46. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the division of revenue grant framework issued in Gazette No. 35399.
47. Sufficient appropriate audit evidence could not be obtained that the allocation of the integrated national electrification programme (municipal) grant had not been utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.
48. Projects funded by the integrated national electrification programme grant were not implemented in line with the details contained in the integrated development plan, as required by the division of revenue grant framework issued in Gazette No. 35399.
49. Sufficient appropriate audit evidence could not be obtained that the allocation of the local government financial management grant had not been utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.
50. The municipality did not submit MFMA implementation plans to the National Treasury to address weaknesses in financial management, as required by the division of revenue grant framework issued in Gazette No. 35399.
51. Sufficient appropriate audit evidence could not be obtained that the allocation of the municipal systems improvement grant had not been utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.
52. Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention were not surrendered to the national revenue fund, as required by section 21(1) of DoRA.

### **Expenditure management**

53. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
54. An effective system of expenditure control was not in place, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
55. An adequate management, accounting and information system was not in place to recognise expenditure and to account for payments made, as required by section 65(2)(b) of the MFMA.
56. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Consequence management**

57. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
58. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
59. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

### **Human resource management**

60. Council approval in respect of the staff establishment could not be provided, as required by section 66(1)(a) of the MSA.
61. Supporting evidence to verify that the selected finance officials at middle management level met the prescribed competency areas could not be obtained, as required by Municipal Regulations on Minimum Competency Levels 8 and 9.
62. Supply chain management (SCM) managers did not meet any of the prescribed competency areas, as required by Municipal Regulations on Minimum Competency Levels 8 and 9.
63. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate the performance of staff, in contravention of section 67(d) of the MSA.
64. The municipal manager and the senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

### **Internal audit**

65. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review
  - it did not report to the audit committee on the implementation of the internal audit plan.

### **Procurement and contract management**

66. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, contrary to SCM Regulation 17(a) and (c).
67. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(b).
68. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding had been advertised for the required minimum period, as required by SCM Regulation 22(1) and 22(2).
69. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
70. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded only to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.
71. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
72. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded only to bidders who had submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

### **Revenue management**

73. An adequate management, accounting and information system was not in place to account for debtors, as required by section 64(2)(e) of the MFMA.
74. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

### **Strategic planning and performance**

75. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to the council for adoption, as required by Municipal Planning and Performance Management Regulation 15(3).

76. The municipality did not conduct its affairs in a manner that was consistent with its integrated development plan, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal Planning and Performance Management Regulation 6.
77. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
78. The performance management system of the municipality was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan; did not clarify the roles and responsibilities of each role player in the functioning of the system; did not determine the frequency of reporting and the lines of accountability for performance; did not relate to the municipality's performance management processes; and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38(a) of the MSA and Municipal Planning and Performance Management Regulation 7(2)(c), (e), (f) and (g).
79. The performance management system of the municipality did not provide for the monitoring of performance and for the measuring and review of performance at least once per year, with regard to each development priority and objective and against the key performance indicators and targets set, as required by section 41 of the MSA.
80. The performance management system of the municipality did not provide steps to improve performance with regard to those development priorities and objectives where performance targets were not met, as required by section 41(1)(d) of the MSA.
81. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
82. The parent municipality with sole control of a municipal entity that is a private company did not ensure that annual performance objectives and indicators for the municipal entity were established by agreement with the municipal entity and included in the municipal entity's multi-year business plan, as required by section 93B(a) of the MSA.
83. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the integrated development plan, as required by section 41(1)(b) of the MSA and Municipal Planning and Performance Management Regulation 12(1) and 12(2)(e).
84. Sufficient appropriate audit evidence could not be obtained that revisions to the service delivery and budget implementation plan had been approved by the council after the approval of the adjustment budget, as required by section 54(1)(c) of the MFMA.
85. The performance of the municipality against the agreed performance objectives and indicators was not monitored and annually reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.
86. The audit committee did not review the municipality's performance management system or make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).

87. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i), as the internal audit unit did not report on this.
88. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii), as the internal audit unit did not report on this.
89. The internal audit unit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).
90. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i).
91. The internal audit unit did not assess the extent to which performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(iii).
92. The internal audit unit did not audit the performance measurements on a continuous basis or submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).
93. The annual performance report for the year under review did not include the names of external service providers and a comparison of the performance with set targets and the performance in the previous financial year, as required by section 46(1)(a), (b) and (c) of the MSA.
94. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls, as required by section 62(1)(c)(i) of the MFMA.

#### **Internal control**

95. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

96. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
97. The accounting officer did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.



98. The accounting officer did not communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

#### **Financial and performance management**

99. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
100. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
101. Management did not review and monitor compliance with applicable laws and regulations.

#### **Governance**

102. Internal audit efforts were not based on a business risk assessment.
103. The internal audit unit did not follow up the implementation of internal and external audit recommendations to improve audit outcomes.

#### **OTHER REPORTS**

##### **Investigations in progress**

104. There are ongoing investigations regarding alleged irregularities and fraudulent activities. These investigations had not been concluded at the date of this report.

*Auditor-General*

Nelspruit

30 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*